

Actuarial

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June 10, 2008

The Board of Trustees
Indiana State Teachers' Retirement Fund
Indianapolis, IN

Dear Board Members:

Submitted in this report are the results of the June 30, 2007 actuarial valuation of the Indiana State Teachers' Retirement Fund.

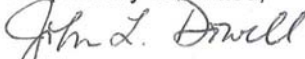
The member census data and the asset information for this valuation were furnished by your Chief Financial Officer and Staff. Their efforts and cooperation in furnishing these materials are acknowledged with appreciation. We did not audit the information provided, but we did review it thoroughly for reasonableness and compared it with the prior year's submission for consistency.


The actuarial assumptions were adopted by the Board pursuant to the Experience Study dated August 14, 2003 and covering the period July 1, 1996 to June 30, 2002. That study was conducted by the prior actuary at Gabriel Roeder Smith & Company. Assumptions are summarized in the Assumptions and Methods section of this report.

Your attention is directed to the Comments on page 1 and the Summary of Key Valuation Results on page 2.

The valuation was completed under the supervision of a Member of the American Academy of Actuaries with significant experience in valuing employee retirement systems, and was prepared using generally accepted actuarial principles and in accordance with standards of practice prescribed by the Actuarial Standards Board. To the best of our knowledge, this report is complete and accurate and the actuarial methods and assumptions produce results that are reasonable.

Respectfully submitted,


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Actuarial Summary

Funding Objective

The Pre-1996 Account is funded on a pay-as-you-go basis from the State of Indiana. The funding objective of the Indiana State Teachers' Retirement Fund's 1996 Account is to establish and receive contributions that, when invested at the assumed rate of return, will ultimately accumulate assets over each member's working lifetime that will be sufficient to pay expected retirement benefits.

Fund Structure and Funding Arrangements

The Indiana State Teachers' Retirement Fund (TRF) is one fund comprised of a two-account structure in compliance with Indiana Code 21-6.1-2-2:

- The Pre-1996 Account consists of members who were hired prior to July 1, 1995 and who have maintained continuous employment with the same school corporation or covered institution since that date.
- The 1996 Account consists of members who were:
 - a. hired on or after July 1, 1995 or
 - b. hired before July 1, 1995 and prior to June 30, 2005, and subsequently served in a position covered by TRF and were either hired by another school corporation or institution covered by TRF, or were re-hired by a covered prior employer.

Characteristics of the Pre-1996 Account

1. Active membership in the Pre-1996 Account continues to decline as members quit, become disabled, die, retire, or incur a change in status as described in (b) above, thereby automatically transferring to membership in the 1996 Account.
2. The pension benefits from the Pre-1996 Account are funded by State appropriations (including short-term contributions of some revenue from the State Lottery). Annuity benefits payable from the Pre-1996 Account are funded by the annuitization of Pre-1996 Account member contributions at the time of retirement.

Characteristics of the 1996 Account

1. As members depart from active service in the Pre-1996 Account, their replacements will become members of the 1996 Account. If the 1996 Account were a stand-alone plan, this pattern of departures and hirings would produce a fairly constant population size. However, overall active membership in the 1996 Account is expected to increase over time

due to the following factors:

- a. As Pre-1996 Account members depart from active service, their replacements will become members of the 1996 Account; and
 - b. The special provisions of Indiana Code 21-6.1-2-2 require that any member who changed jobs within the Fund or who was re-hired within the Fund during the period July 1, 1995-June 30, 2005 after a period of absence is moved to the 1996 Account.
2. Pension benefits payable from the 1996 Account are funded by contributions from local school corporations or other institutions that employ covered members. Annuity benefits payable at retirement from the 1996 Account are funded by 1996 Account members.

Funding Arrangements

Prior to the legislation that established the two-account structure in TRF, the pension benefits of the Indiana State Teachers' Retirement Fund were funded with a pay-as-you-go method. Under this arrangement, amounts were appropriated to meet the current year's pension payment requirements. Pension benefits payable from the Pre-1996 Account continue to be funded on this basis. In 1995, the Pension Stabilization Fund was set up for the Pre-1996 Account.

Since then, some pre-funding progress has been made via State appropriations to this Account. Pension benefits payable from the 1996 Account are funded through percent-of-pay contributions. The Board of the Teachers' Retirement Fund sets this contribution rate after reviewing the most recent actuarial valuation report. The contribution rate of 7.25% for fiscal year 2008 was set by the Board in fiscal year 2007.

Actuarial Schedules

The schedules shown in the actuarial section, including a Summary of Actuarial Assumptions & Methods, Reconciliation of Changes in Unfunded Actuarial Accrued Liabilities, Solvency Test, Schedule of Active Members' Valuation Data, and Schedule of Retirants and Beneficiaries were prepared by the actuary.

Summary of Actuarial Assumptions & Methods

The assumptions used in this valuation reflect the study of experience covering the period July 1, 1996 through June 30, 2002.

Investment Return Rate

The investment return rate is 7.5% per year, compounded annually (net after administrative expenses). The 7.5% investment return rate translates to an assumed real rate of return of 3.0% over across-the-board salary increases and 3.5% over price inflation.

Pay Increase Assumption

The assumption for each consists of a merit and/or seniority increase, 4.0% for price inflation, and 0.5% for real wage growth.

Pay Increase Assumption			
Years of Service	Merit & Seniority	Base (Economic)	Total
1	11.00%	4.50%	15.50%
5	5.00	4.50	9.50
10	3.50	4.50	8.00
15	2.50	4.50	7.00
20	1.50	4.50	6.00
25	0.25	4.50	4.75
30	0.25	4.50	4.75
35	0.25	4.50	4.75
40	0.25	4.50	4.75

Total Active Member Payroll

The total active member payroll is assumed to increase 4.5% annually for purposes of calculating the projected contribution for the 2009 fiscal year.

Price Inflation

Price inflation is assumed at 4.0% per year. Price inflation is not directly tied to benefits, however, it is a component of the economic model used to determine total wage inflation.

Mortality

Healthy

1983 Group Annuity Male Mortality Table set back five years for males and seven years for females is used.

Disabled

1983 Group Annuity Male Mortality Table set forward five years for males and three years for females is used.

Retirement

Sample probabilities are shown in the chart below.

Probabilities of Age and Service Retirement		
Regular Retirement		
Age	Male	Female
60	0.1500	0.1500
65	0.3500	0.3500
70	1.0000	1.0000
Rule of 85 Retirement		
Age	Male	Female
55	0.1100	0.1100
60	0.1500	0.1500
65	0.3500	0.3500
70	1.0000	1.0000
Early Retirement		
Age	Male	Female
50	0.0100	0.0100
55	0.0300	0.0300

Summary of Actuarial Assumptions & Methods

Withdrawal

Sample probabilities are shown in the chart below.

Probabilities of Withdrawal

Years of Service	Service Based	
	Male	Female
0	0.3000	0.3500
1	0.1700	0.1800
2	0.1100	0.1400
3	0.0900	0.1100
4	0.0700	0.1000
5	0.0600	0.0800
6	0.0500	0.0650
7	0.0450	0.0600
8	0.0400	0.0550
9	0.0400	0.0500

Attained Age	Age Based	
	Male	Female
25	0.0664	0.0950
30	0.0432	0.0720
35	0.0232	0.0430
40	0.0144	0.0260
45	0.0120	0.0200
50	0.0120	0.0200
55	0.0104	0.0180
60	0.0096	0.0140

Disability

Sample probabilities are shown in the chart below.

Probabilities of Disability

Attained Age	Age Based	
	Male	Female
25	0.0001	0.0001
30	0.0001	0.0001
35	0.0001	0.0001
40	0.0001	0.0001
45	0.0002	0.0002
50	0.0005	0.0005
55	0.0009	0.0009
60	0.0010	0.0010

Actuarial Cost Method

Entry Age Normal (level percent of pay) method is used.

Asset Valuation Method

The Funding Value of Assets recognizes investment gains and losses in equal installments over four years.

Marriage Assumption

100% of members are assumed to be married for purposes of valuing death-in-service benefits. Male spouses are assumed to be three years older than female spouses.

Pay Increase Timing

Beginning of (fiscal) year is used. Payroll amounts stated in the valuation data are amounts projected to be paid during the current year.

Decrement Timing

Decrements are assumed to occur at the beginning of the fiscal year.

Other

Disability and withdrawal decrements do not operate after member reaches retirement eligibility. Only the withdrawal and death decrements operate during the first ten years of service.

Miscellaneous Adjustments

The calculated liabilities and normal costs were increased by 1% to account for the inclusion of unused sick leave in the calculation of average compensation.

Actuarial Equivalence Basis for Optional Forms of Payment

The following is used: 7.5% interest with a 40%/60% unisex blend of the 1983 Group Annuity Male Mortality table set back three years and the 1983 Group Annuity Male Mortality Table set back seven years.

Explicit Expense Load

None

Cost of Living Adjustment Assumption

1.5% compounded annually on pension portion is used.

Employee Census and Asset Data

Census and asset information was furnished as of the valuation date by the Fund's administrative staff. Although examined thoroughly for reasonableness and consistency with prior years, the data was not otherwise audited by the actuary.

The actuarial valuation computations were made under the supervision of a Member of the American Academy of Actuaries (MAAA).

Reconciliation of Changes in Unfunded Actuarial Accrued Liabilities

Indiana State Teachers' Retirement Fund

(Dollars in millions)

	Pre-1996 Account	1996 Account	Total
July 1, 2006 UAAL*	\$ 9,525	\$ 154	\$ 9,679
Asset Investment Gains/(Losses)	(189)	(57)	(246)
Change in COLA Assumption from 1.0% to 1.5%	521	96	617
Prior Year Adjustment for Unaccounted Members	552	44	596
Other Adjustments**	(185)	(122)	(307)
July 1, 2007 UAAL	\$ 10,224	\$ 115	\$ 10,339

* UAAL: Unfunded Actuarial Accrued Liabilities

** Other Adjustments includes changes due to increases for benefit accruals and expected net interest on assets and liabilities; offset by decreases for contributions and decreases due to actuary match from change in actuaries.

Indiana State Teachers' Retirement Fund

(Dollars in thousands)

Actuarial Accrued Liabilities

Fiscal Year Ended June 30	Active Member Contributions	Retirees and Beneficiaries	Active Member (Employer Financed Portion)	Total Actuarial Accrued Liabilities
Pre-1996 Account				
2002	\$ 2,551,239	\$ 4,411,728	\$ 6,534,811	\$ 13,497,778
2003	2,720,265	4,832,821	5,801,780	13,354,866
2004	2,849,091	5,116,191	5,583,243	13,548,525
2005	2,925,367	5,653,502	5,675,277	14,254,146
2006	2,898,891	6,238,115	5,865,465	15,002,471
2007	3,016,052	7,063,889	5,908,318	15,988,259
1996 Account				
2002	\$ 270,057	\$ 17,338	\$ 879,488	\$ 1,166,883
2003	358,338	107,684	926,451	1,392,473
2004	445,896	148,889	1,054,616	1,649,401
2005	535,179	219,722	1,255,846	2,010,747
2006	602,051	282,638	1,478,412	2,363,101
2007	656,918	449,452	1,721,184	2,827,554

Indiana State Teachers' Retirement Fund

(Dollars in thousands)

Portion of Actuarial Accrued Liabilities Covered by Assets

Fiscal Year Ended June 30	Actuarial Value of Assets	Active Member Contributions	Retirees and Beneficiaries	Active Member (Employer Financed Portion)	Total Actuarial Accrued Liabilities
Pre-1996 Account					
2002	\$ 5,555,352	100.0%	68.1%	0.0%	41.2%
2003	5,728,553	100.0	62.2	0.0	42.9
2004	5,765,668	100.0	57.0	0.0	42.6
2005	5,796,723	100.0	50.8	0.0	40.7
2006	5,477,221	100.0	41.3	0.0	36.5
2007	5,763,507	100.0	38.9	0.0	36.1
1996 Account					
2002	\$ 621,223	100.0%	100.0%	38.0%	53.2%
2003	825,812	100.0	100.0	38.8	59.3
2004	1,038,727	100.0	100.0	42.1	63.0
2005	1,268,576	100.0	100.0	40.9	63.1
2006	2,209,468	100.0	100.0	89.6	93.5
2007	2,713,052	100.0	100.0	93.3	95.9

Schedule of Active Members' Valuation Data

Indiana State Teachers' Retirement Fund				
(Dollars in thousands - except average pay)				
As of July 1	Active Members	Annual Payroll	Average Pay	Percent Increase
Pre-1996 Account				
2002	47,510	\$ 2,604,956	\$ 54,830	8.6%
2003	43,705	2,448,271	56,018	2.2
2004	41,510	2,384,480	57,444	2.5
2005	39,097	2,305,726	58,974	2.7
2006	36,994	2,237,380	60,480	2.6
2007	36,526	2,376,390	65,060	7.6
1996 Account				
2002	27,873	\$ 1,004,515	\$ 36,039	18.7%
2003	29,936	1,136,864	37,976	5.4
2004	32,000	1,267,173	39,599	4.3
2005	34,826	1,428,604	41,021	3.6
2006	36,356	1,565,341	43,056	5.0
2007	39,307	1,891,605	48,124	11.8

Indiana State Teachers' Retirement Fund

(Dollars in thousands -- except average annual allowances)

Fiscal Year Ended June 30	Added to Rolls*		Removed from Rolls*		Net Transfers and Benefit Changes*	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
Pre-1996 Account						
2002						
2003						
2004						
2005						
2006						
2007	2,292	\$ 52,947	(1,063)	\$ (12,167)	(423)	\$ (7,056)
1996 Account						
2002						
2003						
2004						
2005						
2006						
2007	197	\$ 3,658	(22)	\$ (416)	423	\$ 8,312

* TRF changed actuarial services beginning with the fiscal year ending June 30, 2007. The previous actuary did not provide data with this detail.

Schedule of Retirants and Beneficiaries (Continued)

Indiana State Teachers' Retirement Fund

(Dollars in thousands -- except average annual allowances)

Fiscal Year Ended June 30	Rolls -- End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances		
Pre-1996 Account				
2002	34,646	\$ 480,690	6.0%	\$ 13,874
2003	35,627	516,617	7.5	14,501
2004	36,271	546,960	5.9	15,080
2005	37,421	586,597	7.2	15,676
2006	38,522	624,573	6.5	16,213
2007	39,328	658,297	5.4	16,739
1996 Account				
2002	108	\$ 1,662	40.1%	\$ 15,389
2003	608	10,447	528.6	17,183
2004	797	14,480	38.6	18,168
2005	1,091	20,584	42.2	18,867
2006	1,327	25,459	23.7	19,185
2007	1,925	37,013	45.4	19,228

